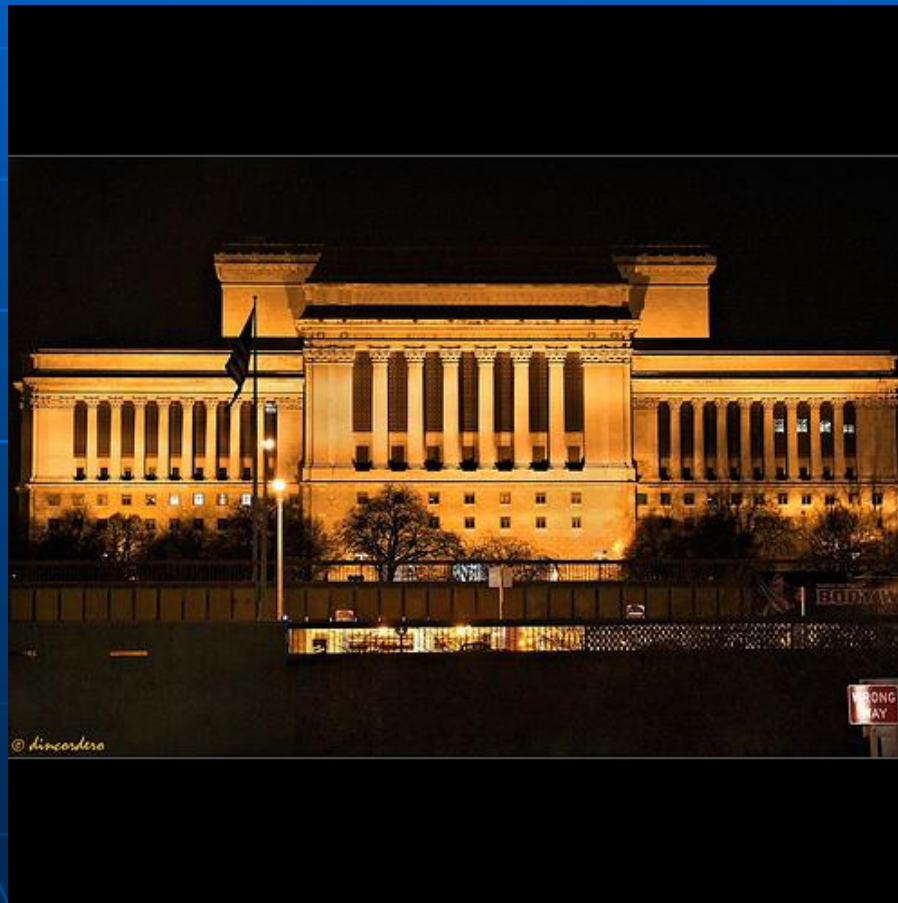


Comptroller Update

- 2018 Update to Financial Managers



Five Year Projection

- Thanks to CJ Pahl for her work on the Five Year Plan for Milwaukee County



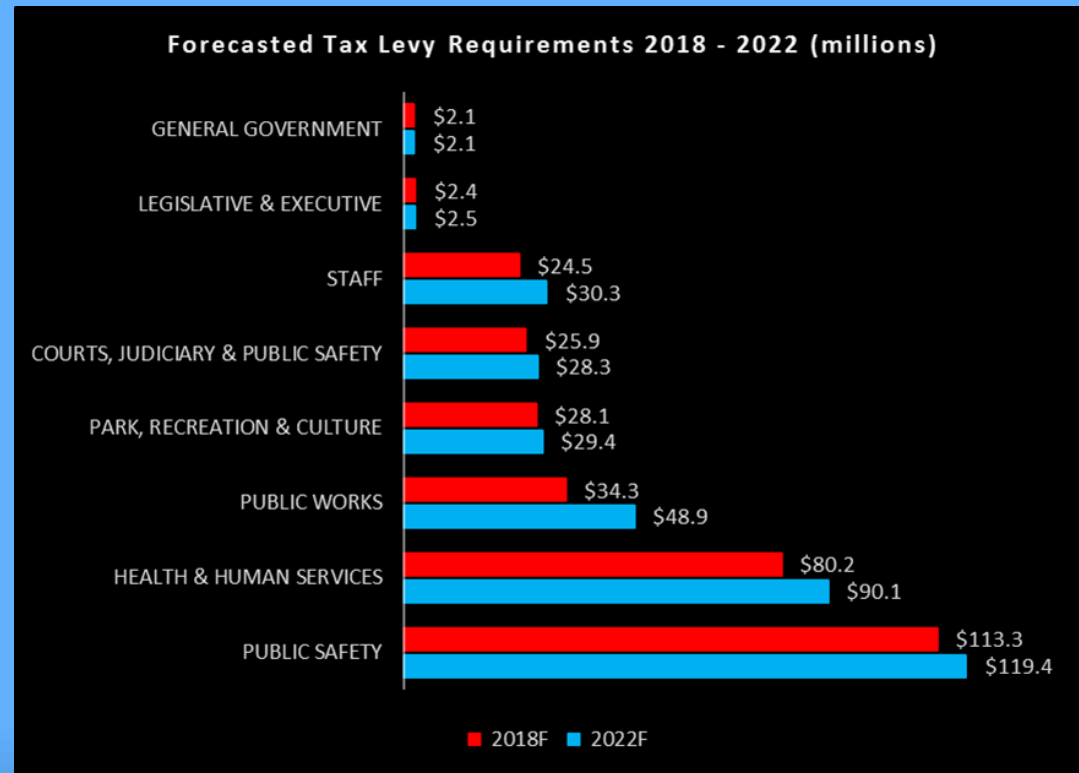
Christmas at the
Courthouse in 1982

2018 Projected Structural Deficit

| Expenditure Type | Amount (millions) |
|---------------------------------|-------------------|
| Healthcare | \$ 9.3 |
| Pension | \$ 6.4 |
| Other Purchase of Services | \$ 4.5 |
| Misc (1) | \$ 3.2 |
| Other Services | \$ 1.8 |
| Professional Services | \$ 1.0 |
| Debt Service Principle/Interest | \$ (0.7) |
| Salaries & Overtime | \$ (1.6) |
| Expenditure Change | \$ 23.9 |
| Revenue Type | |
| One-time Revenues | \$ 7.3 |
| Other Federal Revenue | \$ 3.0 |
| Employee Health Contributions | \$ 1.3 |
| Earnings on Investment | \$ (1.7) |
| Property Taxes | \$ (2.9) |
| Revenue Change | \$ 7.0 |
| Projected 2018 Gap | \$ 30.9 |

FIVE YEAR
FORECAST

Forecasted Tax Levy 2018-2022



FIVE YEAR
FORECAST

Impact of New Revenue

| Current - No Changes | | | | Add \$18 M New Revenue | | | Add \$18M New Revenue & Increase Growth by 0.8% | | |
|-----------------------|---------------------------|------------------|---------|------------------------|---------------------------|------------------|-------------------------------------------------|---------------------------|------------------|
| 0.70% | 2.50% | | | 0.70% | 2.50% | | 1.50% | 2.50% | |
| Revenue (Millions) | Expenditure (Millions) | Cost-to-Continue | | Revenue (Millions) | Expenditure (Millions) | Cost-to-Continue | Revenue (Millions) | Expenditure (Millions) | Cost-to-Continue |
| 0.70% | 2.50% | | | 0.70% | 2.20% | | 1.50% | 2.20% | |
| 2018 | 1,048 | 1,079 | \$ 31.0 | 1,066 | 1,079 | 13.0 | 1,066 | 1,079 | 13.0 |
| 2019 | 1,055 | 1,106 | \$ 19.6 | 1,073 | 1,106 | 19.5 | 1,082 | 1,106 | 11.0 |
| 2020 | 1,063 | 1,134 | \$ 20.3 | 1,081 | 1,134 | 20.1 | 1,098 | 1,134 | 11.4 |
| 2021 | 1,070 | 1,162 | \$ 20.9 | 1,089 | 1,162 | 20.8 | 1,115 | 1,162 | 11.9 |
| 2022 | 1,078 | 1,191 | \$ 21.6 | 1,096 | 1,191 | 21.4 | 1,131 | 1,191 | 12.3 |
| 2023 | 1,085 | 1,221 | \$ 22.2 | 1,104 | 1,221 | 22.1 | 1,148 | 1,221 | 12.8 |
| 2024 | 1,093 | 1,251 | \$ 22.9 | 1,112 | 1,251 | 22.8 | 1,166 | 1,251 | 13.3 |
| 2025 | 1,100 | 1,283 | \$ 23.6 | 1,119 | 1,283 | 23.5 | 1,183 | 1,283 | 13.8 |
| 2026 | 1,108 | 1,315 | \$ 24.4 | 1,127 | 1,315 | 24.2 | 1,201 | 1,315 | 14.3 |
| 2027 | 1,116 | 1,348 | \$ 25.1 | 1,135 | 1,348 | 25.0 | 1,219 | 1,348 | 14.9 |

FIVE YEAR
FORECAST

Future Thoughts

- Annual inflationary cost increases will not be offset by projected revenue increases.
- Every one-time revenue or expenditure abatement will have a negative impact on the following year's structural deficit.
- More meaningful discourse on a long-term sustainable strategy to match revenue and expenditure growth is needed.

FIVE YEAR FORECAST

2017 Financial Closing



2017 Financial Closing

Period Closing Dates

- a. Period 13 close set for Jan 19
- b. Period 14 closing dates
 - 1) Period 14-1 Feb 16 All JV's and accruals
 - Breakevens will be required earlier due to early close for CARS contract
 - 2) Period 14-2 Mar 09 Accruals \$50,000 minimum
- c. Financial Surplus est \$6 million.



Closing Calendar

- **Closing documents emailed in November, 2017.**
- **Period 13 close 01/19/18-process all 2017 invoices, accounts payable can still post invoices to 2017.**
- **Period 14-1 close 02/16/18-accruals and adjustments by departments with Comptroller's office approval.**
- **Period 14-2 close 03/09/18-accruals and adjustments over \$50,000.**
- **Period 14-3 close 04/13/18-accruals and adjustments by Comptroller's office only.**
- **Journal entries must be approved to level PEND4 by 12:00 pm by dates shown above, and appropriate supporting documentation sent to SH Central Accounting email box.**

2017 Financial Closing

Fringe Breakeven

a. Health Cost Breakeven 2017

- Preliminary Breakeven Completed

b. Pension Cost is a Breakeven for 2017.

- Preliminary Breakeven Completed

c. Final Breakeven will occur in January.

d. Breakeven of Fringe Budget will occur after.

Payroll

- W2s are in the mail and available on-line as of today!



Capital Carryovers

- **Moving unencumbered available balances and unrealized revenues for 2017 capital projects and operating projects (8500 series accounts)**
- **Training on the carryover web site will be available February 6 and 7**
- **Carryover web site will be opened for departmental entries after period 14-1 close (February 20)**
- **Carryover Entries need to be completed on the web site by March 9.**
- **Final recommendations will be submitted to the County Board and County Executive**

Cash Receipts

- Received and deposited before year end – CR will be posted to 2017. No accrual is needed.
- Received but deposited after year end. CR to be posted to 2018. Accrual will have to be done.
- Received and deposited but funds will be related to 2018. Deferred Revenue entry will be needed.

Pension and Healthcare Costs



Pension Costs

1. 2017 Contribution
 - \$19,150,000 Normal Cost
 - \$46,841,000 Legacy Costs - 8.0%
 - \$33,182,000 Pension Obligation Bonds
2. Issuance of Pension Obligation Bonds
 - \$400 Million in March 2009 at 6.2%
 - Payable over 25 years - \$33 million a year
 - Pension Assets \$1,675 million

Pension Costs

1. 2018 Contribution
 - \$18,957,000 Normal Cost
 - \$53,237,000 Legacy Costs – 7.75%
 - \$33,182,000 Pension Obligation Bonds
2. Contribution Rates for 2018 Same
 1. Active Non-Public Safety 6.5% - 2018
 1. Could go to over 7% for 2019
 2. Active Public Safety 8.3% - 2018
 1. Could go to over 9% for 2019

Pension Costs in Future

1. Changing the Expected Rate of Return on Assets to 7.75% in 2018
 - Pension assets now at \$1,740 million
 - 11% to 13% return.
2. Pension contribution rises in 2019 by \$1.5 million and then \$6.8 million in 2020 (expected rate of return to 7.5% in 2020)

Pension Flow

- Employer Contributions \$60 million
- Employee Contributions \$12 million
- Benefit Payments – (\$190 million)
- Assumed Int Earnings \$135 million
- Members
 - Active 3468 Avg Age 45
 - Deferred 1394 Avg Age 52
 - Retired 8063 Avg Age 72

Health Care Costs in Future

1. Health Care costs continue to grow.
 - Trend rate is still 5% to 7%
 - 2017 was better than anticipated due to unexpected rebates received and a timing change in when we receive some rebates.
 - If trends continue, 2018 costs should be near budget.

Health Care Costs

| 2017 Costs for Health Care | | | | |
|----------------------------|--|----------------|---------------|--------------|
| | | <u>Retired</u> | <u>Active</u> | <u>Total</u> |
| Medical Administration | | 2,000,207 | 2,624,550 | 4,624,757 |
| Prescription Drugs | | 28,193,669 | 6,777,392 | 34,971,061 |
| Drug Rebates | | (13,799,932) | (1,364,828) | (15,164,760) |
| Health Insurance | | 25,544,016 | 33,517,293 | 59,061,309 |
| Dental | | - | 3,071,407 | 3,071,407 |
| Medicare Reimbursement | | 7,909,077 | - | 7,909,077 |
| Group Life Insurance | | 1,007,994 | 1,704,539 | 2,712,533 |
| EE Health Contributions | | - | (5,972,279) | (5,972,279) |
| Employee FSA | | - | 2,503,586 | 2,503,586 |
| | | 50,855,032 | 42,861,658 | 93,716,690 |
| | | | | |

2018 Year Ahead



Salaries and Wages

What are proposed changes to salaries?

1. Salaries

- 1% Salary Increase in June
- Other Increases on Hold

2. Compensation Plan

- On hold

Fringe Allocation

What Happened with Fringe Allocation for 2017?

1. Legacy Fringe Costs in Objects 5422 & 5423.
2. Active Fringe Costs in Objects 5420 & 5421.
3. Most department budgets for fringes have been removed
4. Will still allocate Active Fringes and Legacy fringes with offsets in 5424 and 5425.

Cross Charges

- Most Cross-Charge budgets have been removed from Departments
- How will we show cross-charges for 2018?
- Meeting with Cross-charge departments.

Payroll

New Tax Rates for 2018

- We are waiting for the IRS to begin to apply the new tax rates to pay checks. No date certain yet
- As a result of the changes, new W4s will need to be filled out. Again, we will let you know when we have the information available.

Projecting 2018

1. Financial issues for 2018 include fringes and departmental results.
2. Monitoring fringes, personnel and revenue estimates.
3. Fund transfers submitted by Administration to avoid cuts.

Financial reporting for 2018

1. No changes from 2017
2. Let us know changes in financial status as soon as possible each month.
3. Detailed Memo is required each quarter.

Other Issues

1. Communication of Issues



Other Issues

1. Travel Policy updated

- Auto Mileage rate increased to \$0.545 per mile.
- Meal Rate Unchanged

| | | | |
|---|---------------------|------|------|
| ■ | Rate | 2017 | 2018 |
| ■ | Low | \$51 | \$51 |
| ■ | Mod | \$59 | \$59 |
| ■ | High | \$69 | \$69 |
| ■ | Hotel Reimbursement | | |

- County uses an eight tier reimbursement rate for hotels. Appendix listing rates by City will be out early next week.

Old County Courthouse



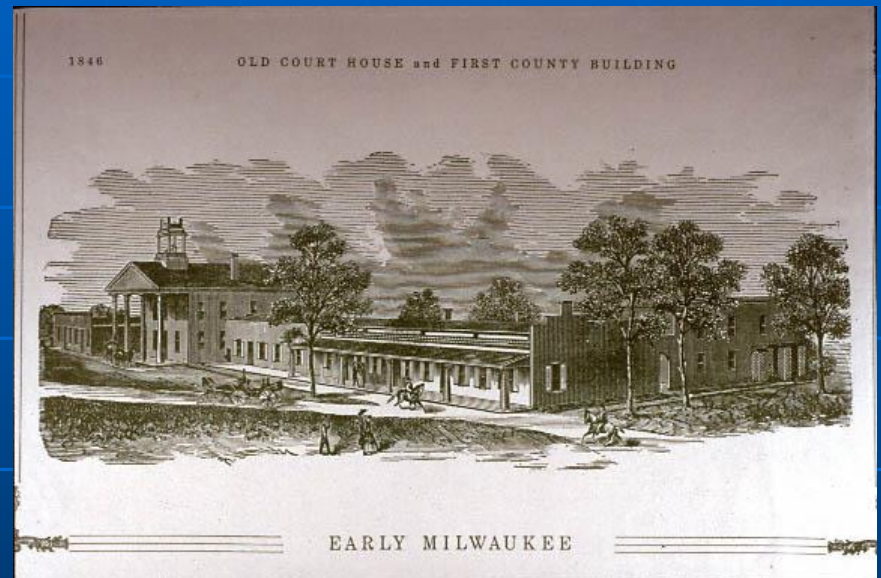
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Quiz

1. What was building in the previous slide?
 - 2nd Milwaukee County Courthouse
2. What sculptures are in front of the Courthouse?
 - Ghandi and the Spirit of Polonia
3. What sculpture is in the Courthouse, near main floor?
 - Forward
4. What year was the Courthouse built?
 - 1931
5. When did the Courthouse get air-conditioning?
 - 1981
6. What did Frank Lloyd Wright say about the Courthouse?

Original Courthouse on Cathedral Square

- Originally known as Courthouse Square, the land was donated by city co-founder Solomon Juneau in 1836, and housed a court house and jail. The first courthouse was built by Solomon Juneau and Morgan L. Martin. A mob of 5,000 people converged at the jail in 1854 to rescue Joshua Glover, a runaway slave captured and imprisoned by federal marshals. During the American Civil War, parkland south of the courthouse was used as place to assemble for troops leaving for or returning from the front.
- A second courthouse was built on the site in 1873, and was used until 1931 when the current Milwaukee County Courthouse was built. The jail was moved to another site in 1886.



New County Courthouse



Frank Lloyd Wright

- Frank Lloyd Wright was an American architect, interior designer, writer and educator, who designed more than 1,000 structures, 532 of which were completed. Wright believed in designing structures that were in harmony with humanity and its environment, a philosophy he called organic architecture. 1867-1959



Frank Lloyd Wright



- "hardly worth blowing up." In 1956
- "million dollar rockpile"
- Milwaukee has betrayed its youth with that new courthouse and you may quote me as saying just that," he told The Journal in a story published Nov. 20, 1930. "That building will set Milwaukee back at least 50 years from any cultural standpoint. It will take at least that long to recover from the influence of that thing.
- "This generation doesn't mind it, but the new generation will mind it. It's an outrage.

Financial & Single Audit

- External Auditors – Baker Tilly and Coleman & Williams are back on site!
- If you have questions or concerns contact Paul Grant, Audit Compliance Manager
- Please extend your continued cooperation with this process
- Last year we had a clean audit and unqualified opinion.
- Thank YOU!

Bank Account Reconciliation

- Per County ordinance, Audit Services reconciles County bank accounts
- Independent reconciliation is an accounting internal control
- Management is responsible for overseeing bank accounts reconciled by Audit Services
- Oversight includes assigning qualified individuals to manage accounts
- See Audit Services memo being handed out
- Contact Paul Grant, Audit Compliance Manager, with questions

Encumbrances

- Milwaukee County added \$3 million of encumbrances in Dec 2017 or Dec 2016.
- Budget issues has created Dept need to move funds to 2018
- 2018 Budget is for 2018. 2017 Budget is for 2017
- Will create Procedure for Departments

ERP

1. Transferring to New Computer for Advantage – Dec 2017
2. Signing Contract for Implementation of New Financial and Human Resource System – Jan 2018
3. Begin work for installation of new Financial System – Feb 2018
4. Financial System Installation Complete – Dec 2018
5. Start work for Human Resource Payroll System Nov 2018
6. Finish Installation in Dec 2019



Courthouse view down
Kilbourn - 1941

Abatements

Fraud Hotline

Milwaukee County OFFICE OF
THE COMPTROLLER
AUDIT SERVICES DIVISION

- Fraud Hotline

414-933-7283

(93-FRAUD)

- Email

hotline@4securemail.com

- Fax

414-223-1895

- Website

Audit Services Division County Page

- Mail

Fraud Hotline, 633 West Wisconsin Avenue, 904, Milwaukee, WI 53203



Figure 45: Frequency of Schemes Based on Industry



ACFE, 2016 Global Fraud Study, Report to the Nations on Occupational Fraud and Abuse, pg. 36

Corruption **Red Flags**

Employees

- Reputation/known for accepting inappropriate gifts
- Extravagant lifestyle
- Reputation/known for directing direct reports to break/ignore rules
- Insert themselves into areas not related to job or duties
- Undue/intense pressure to act the way they want
- Excuse third party poor performance

Third Parties

- Provides gifts or entertainment to become close to the organization
- Consistently awarded work despite no competitive advantage or poor results
- Due diligence checks show:
 - Poor reputation or known for dishonesty/corruption
 - Past complaints
 - **Poor performance**
 - Lack of qualifications

Billing Schemes

- Progress Payment Fraud
 - Capital Projects
- False, Inflated Or Duplicate Invoices
 - Lack of Detail
- Failure To Meet Contract Specifications
 - Substitution Fraud
- Change Order Fraud
- Cost Mischarging
 - Costs Are Not Allowable, Unreasonable Or Not Contract Related

Do you know what you are buying?

Employee Purchases

- County Credit Cards
 - Purchase and Travel
 - Different Rules & Different Approved Uses
- Internal Controls
 - Authorized Users
 - Original Receipts
 - Reviewers *Actually* Review
- Travel Expense Reports AMOP 5.11
 - Original Receipts



Closing

Questions?

THANK YOU

- Thank you for coming to our annual meeting on County financial issues.